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Peyto Oils Ltd.

ANNUAL REPORT
Year Ending May 31st, 1972

PHOTO BY DON HARMON, BANFF

Peyto Oils Ltd.

and Subsidiary Companies

HEAD OFFICE:

335 Examiner Bldg.,
CALGARY, Alberta T2P 1W3
Area Code 403 269-5867 - 264-7186

OFFICERS:

WILLIAM WOLODARSKY—*President*
R. T. VANDERHAM—*Vice President*
A. N. McCRUDEN—*Secretary*

DIRECTORS:

W. WOLODARSKY
R. T. VANDERHAM
A. N. McCRUDEN
CARMEN W. BYLER

BANKERS:

CANADIAN IMPERIAL
BANK OF COMMERCE
628 - 8th Ave. S.W.
CALGARY, Alberta T2P 2C9

REGISTRAR AND TRANSFER AGENT:

MONTREAL TRUST COMPANY
522 - 8th Ave. S.W.
CALGARY, Alberta T2P 1E7

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.,
309 - 8th Avenue S.W.
CALGARY, Alberta T2P 1C6

OUR COVER:

OPABIN MOOR LAKES
and CATHEDRAL MOUNTAIN
Yoho National Park
ALBERTA, Canada.

Four Year Financial & Operating Review

	1969	1970	1971	1972
Total Revenue	$ 39,000	$ 144,000	$ 305,000	$ 564,000
Cash Flow	18,000	(24,000)	93,000	204,000
Cash Flow/Share	2¢	(1¢)	5¢	10¢
Depreciation/Depletion	4,000	4,000	88,000	164,000
Net Income (loss)	17,000	(11,000)	(33,000)	(35,000)
Net Income (loss)/share	2¢	(1¢)	(2¢)	(2¢)
Total Assets	306,000	2,242,000	2,940,000	3,224,000
Working Capital	208,000	738,000	187,000	384,000
Long-term Debt	—	—	626,000	629,000
Shares Outstanding	880,000	1,753,293	1,753,293	1,953,293
Shareholder's Equity	294,000	1,944,000	1,912,000	2,277,000

Reserves

Proven Oil — barrels	1,611,000
Probable Oil — barrels	205,000
Proven Gas — in thousand cubic feet	19,898,000
Probable Gas — in thousand cubic feet	3,500,000

Oil & Gas Lands

Canada — acres	395,030 gross
. . . .	114,421 net
Foreign — acres	2,985,032 gross
. . . .	400,981 net

Gross wells drilled	10	11	7	14	7*
Oil/Gas	6	1	2	5	4
Dry	4	10	5	9	3

*From Company's year end May 31, 1972 to present.

DEAR SHAREHOLDER:

Peyto Oils Ltd., achieved record levels of operations and revenues for the year ending May 31, 1972. Total revenues increased 94% to $564,000 and cash flow reached $204,000, an increase of 119%. Cash flow per share increased 100% to 10¢ per share. Despite these results a loss of 2¢ per share, equal to last year's loss, was recorded due primarily to increased charges for depletion, depreciation, dry holes and abandonments.

A four-year financial summary is presented, as well as the company's reserves and acreage holdings, both domestic and foreign on Page 1 of this report.

A private placement of 200,000 shares was completed during the period under review.

Additional exploration funds are being provided through the Peyto Oil & Gas Program 1972, a U.S. limited partnership drilling fund which during the year will provide $600,000 to be spent by the company on exploration. It enables us to participate in many more drilling ventures than would otherwise be possible through the use of our own funds. The company derives certain extra benefits, both financial and through a carried interest position from this drilling fund.

This year was the most active year in the company's history with a total of 14 wells drilled to year end and another 7 wells since May 31, 1972. Two oil pools were discovered; one in Alberta and one in Saskatchewan. In addition, successful additional drilling was completed in Montana and the Lucky Hills area of Saskatchewan.

The acquisition of various interests in the United Kingdom sector of the North Sea as well as Tunisia and Guyana has greatly increased your Company's exposure to important international exploration plays.

Peyto's 65% owned subsidiary, Giant Reef Petroleums Limited, whose financial statement is consolidated with your Company's, completed its first full year of production of the Quirk Creek gas field. This initial year of production has not been without the difficulties that are normally associated with the start-up of a complex facility such as the Quirk Creek processing plant. The improvement of marketing volume and prices for the commodities of natural gas and natural gas liquids are felt to be reasonably imminent.

The deeper prospects existing in the Quirk Creek field will be tested shortly by the drilling of a 12,000 foot test. It is expected that Giant Reef, through special circumstances, will participate in the well at no cost to the company. Should this well prove successful, two more wildcat wells could be drilled to the same depth at no cost. Additional gas reserves in this field would greatly enhance the economics of the existing plant and facilities.

Giant Reef Petroleums Limited also owns 10.6% (450,000 shares) of the outstanding shares of Brown Bear Petroleums Limited (N.P.L.) a public Vancouver based company, holder of a 20% interest in 19,350 acres of leases in the Monkman Pass-Grizzly Valley area of British Columbia. This area has become an active exploration area, productive of natural gas from two zones. To date two deep tests are currently drilling on Brown Bear's leases and two more are drilling immediately offsetting the company's lands. The discovery of major gas reserves in this area appear promising.

The North Sea is rapidly becoming a major exploration and producing area. Politically and economically it is one of the most favorable areas in the world.

Initially your company participated in this area through the purchase of a 3.9% interest in the shares of Sea Search Limited, a newly formed U.K. exploration company, which subsequently acquired varying interests in thirteen blocks totalling 594,293 gross acres. Our investment in Sea Search Ltd. to date totals $257,000 with a further payment of $130,000 due August 1973.

In addition, Peyto's exposure in this area was further increased by our successful application for block 211/2 in the northern part of the North Sea, the site of two major oil discoveries (Brent field and Cormorant field) by the Shell-Esso team. The company's interest is held through Enjay Holdings Ltd., a U.K. company in which we hold a 42½% interest. Other shareholders in Enjay Holdings

Ltd. are the Scottish American Trust Company of Edinburgh, Gresham Trust Company, a London based merchant bank, and Pitcairn Incorporated, a U.S. investment company. Funds have been contributed to do the required seismic work planned for the summer of 1973.

EXPLORATION

Western Canada

From May 1971 to September of this year Peyto participated in the drilling of 21 wells in Alberta and Saskatchewan which resulted in 8 oil wells, 1 shut-in gas well and 12 abandonments for a success ration of 45%. Two new pools; Acheson and Hume were the highlights of this local Western Canadian program. The Acheson pool so far consists of two wells which produce from the Basal Quartz sand. The wells are 100% owned and operated by Peyto and the Peyto 1971 Fund. Hume, a more recent discovery in Saskatchewan, presently has three producing oil wells from the Mississippian Midale Member. The company anticipates another five development locations on this new discovery. The first well in the Peyto Hume pool came on at 88 bbls./day with no water. Peyto and Fund 1972 hold an 80% interest in the Hume discovery. Development of this property is currently underway.

Phillips Petroleum et al Ghost 4-36-26-8-W5M has been licensed and will spud prior to September 15, 1972, on our Seebe-Ghost prospect. This 9500' test is being drilled in the Foothills immediately East of the Front Range of the Rocky Mountains. The well is anticipated to cost $650,000. The cost will be entirely borne by Phillips Petroleum. Peyto will be carried for 5% in the test well and will earn a 10% interest in an additional 49,000 acres. This prospect was initiated by the company and confirmed by seismic shooting done by Peyto and Phillips. The main objective is a faulted Mississippian slice 6 miles west of the prolific West Jumping Pound gas field.

Exploration - International

This aspect of your companys activities has reached an important level in Peyto's overall exploration expansion.

In the Spring of 1972 your company was awarded block 211/2 in the United Kingdom sector of the North Sea. Peyto's interest in this block is 42.5%. Seismic evaluation will commence in the Spring of 1973. The 211/2 license lies some 45 miles north of commercial discoveries made by the Shell-Esso team in 211/21 (Cormorant) and 211/29 (Brent) blocks. A well presently being drilled on block 211/18 is located twenty-five miles south of Peyto's license.

Through a 3.9% share interest in Sea Search Limited, Peyto is indirectly participating in 13 licenses which were granted to that company. One indicated gas well has already been drilled on one of the company's blocks, and one well will shortly be commenced by British Petroleum Company on another. In addition, Sea Search expects to participate in two more wells during 1973.

In Tunisia Peyto participated with others in a 1000 mile marine seismic survey. Six drillable structures were outlined on the 1.2 million acre concession with this preliminary shooting. More seismic work is in progress and applications for additional acreage, on adjoining lands, have been made. A drilling commitment must be made by January 1, 1973, for a well to be drilled on presently held concessions. The prospects in this area appear to be of North African or Middle East proportions. Peyto's interest in the concession is 6⅔%.

In the Black Sea, in Turkey, 25 miles of shooting was accomplished and a report is currently being prepared to determine future plans. In Mediterranean Turkey our Antalya concessions were farmed out to Canadian Superior Oil Company for an onshore seismic program which could result in the drilling of a well if seismic confirms the existence of a drillable prospect onshore, already indicated from our previous work to exist offshore.

In Guyana a 225 mile seismic program was completed by others on company held acreage. Results are still being interpreted. Meanwhile, a group of companies including Peyto have made application for two million additional acres. Peyto has a 12½% interest in currently held concessions and application in Guyana.

Exploration - Mining

On the company held mining claims in Cache Creek, British Columbia, a program of geochem sampling and ground magnetics was

carried out in the summer of 1971. An induced polarization study was conducted in August, 1972. Several large I.P. and geochemistry anomalies were pinpointed on the property. The anomalies are of the same magnitude as those present in the productive copper-molybdenum deposits in the Highland Valley area. Because of the spectacular induced polarization results more work is currently being carried out to further outline these features. Peyto, the operator, holds a 50% working interest in 160 claims. After the additional I.P. work has been completed, drilling by Peyto and partners or others is anticipated.

In Italy our acreage position is being maintained by additional seismic work.

The Company's future explorational efforts will be concentrated in areas where substantial reserves of oil or gas can be found e.g., North Sea, Tunisia, Seebe-Ghost. While looking for these proverbial elephants the company will also maintain its effort in exploring for viable economic prospects in Western Canada to increase cash flow. The present method of obtaining carried interest by initiating prospects will continue especially in offshore and expensive deep drilling Foothills areas.

Mr. Haig deB. Farris has advised the Board of his decision to resign as a director of the company due to other business commitments. We very much regret his resignation. Mr. Farris took an active interest in the affairs of the company and the Board will miss his efforts and contributions.

The Annual Meeting of the Shareholders of Peyto Oils Ltd. will be held on the 1st day of November, 1972 at the Lake Louise Room of the Calgary Inn, 4th Avenue and 3rd Street S.W., Calgary, Alberta, at the hour of 9:30 a.m.

On Behalf of the Board of Directors,

W. WOLODARSKY,

President.

September 12, 1972.

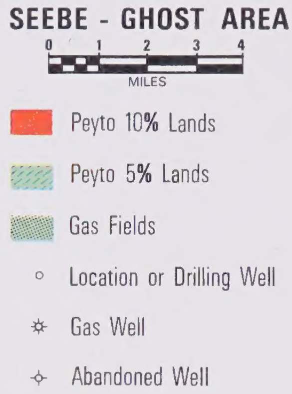
NORTH SEA AREA
0 25 50 75 100 125 150
MILES
Peyto et al Lands
Sea Search Lands
Gas Fields
Oil Fields
Location or Drilling Well
Gas Well
Oil Well
210-1
210-2
211-2
Drilling Well
Cormorant
Brent
NORWAY
Shetland Islands
Frig
Orkney Islands
15-8
16-26
21-7
Forties Field
Location
21-14
North Sea
SCOTLAND
28-5
Ekofisk Field
Ergfisk Field
Auk Field
Eldfisk Field
29-25
EDINBURGH
Irish Sea
West Sole Field
48-12
48-13b
48-19b
48-18b
Indefatigable Field
Indicated Gas Discovery
Hewett Field
Leman Bank Field
LIVERPOOL
ENGLAND
NETHERLANDS
WALES
LONDON
BRUSSELS
English Channel
BELGIUM

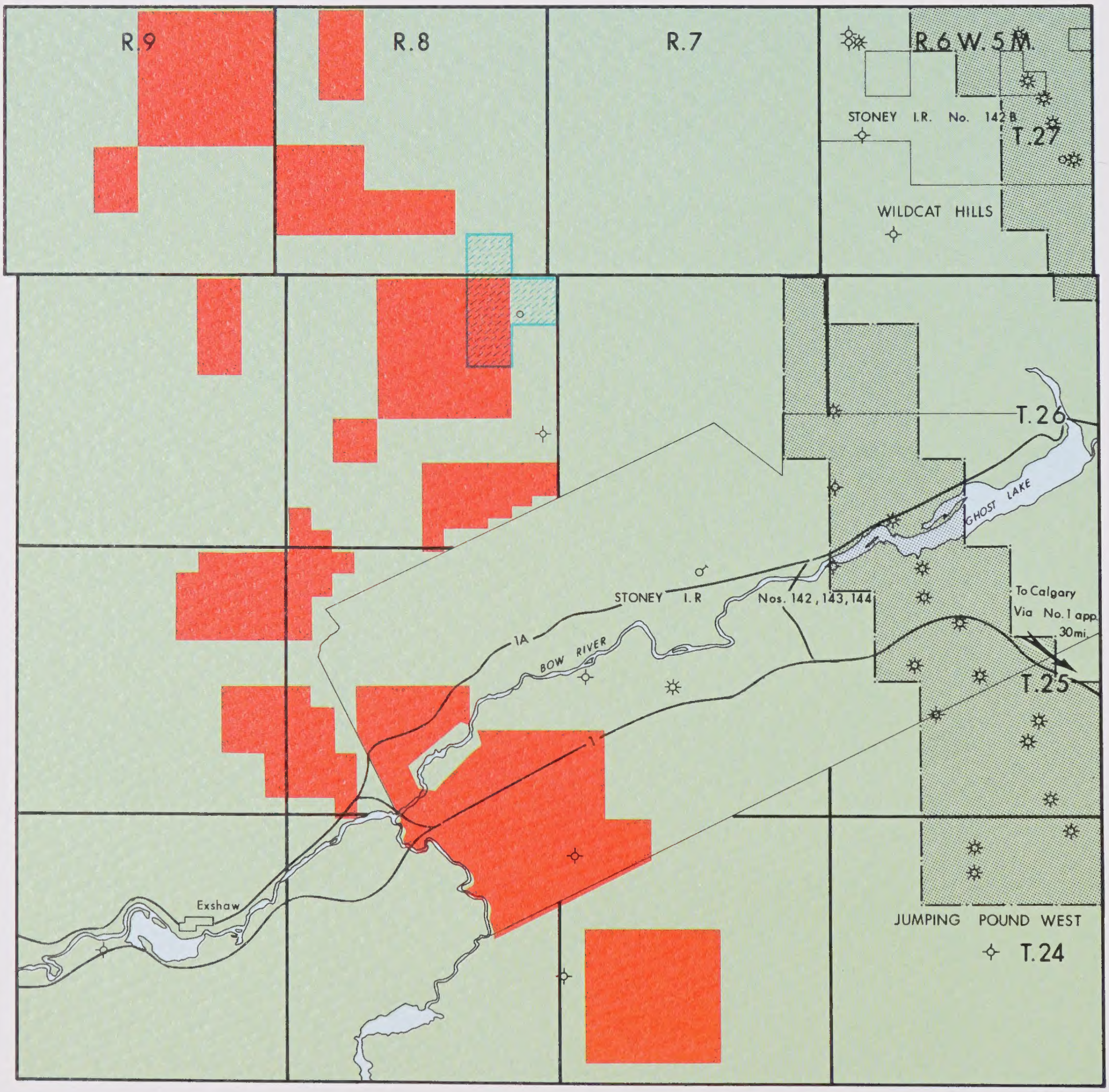
SEEBE-GHOST AREA

49,000 acres of Petroleum and Natural Gas leases are held under option in this Foothills area. A well, to test a well-defined seismic prospect, Phillips Ghost 4-36-26-8-W5, has recently been spudded.

Two sections of our option lands were pooled with two sections of non-owned adjoining lands resulting in Peyto owning a 5% interest in four sections, as well as a 10% interest in the balance of the lands. The initial well is to be drilled at no cost to the company.

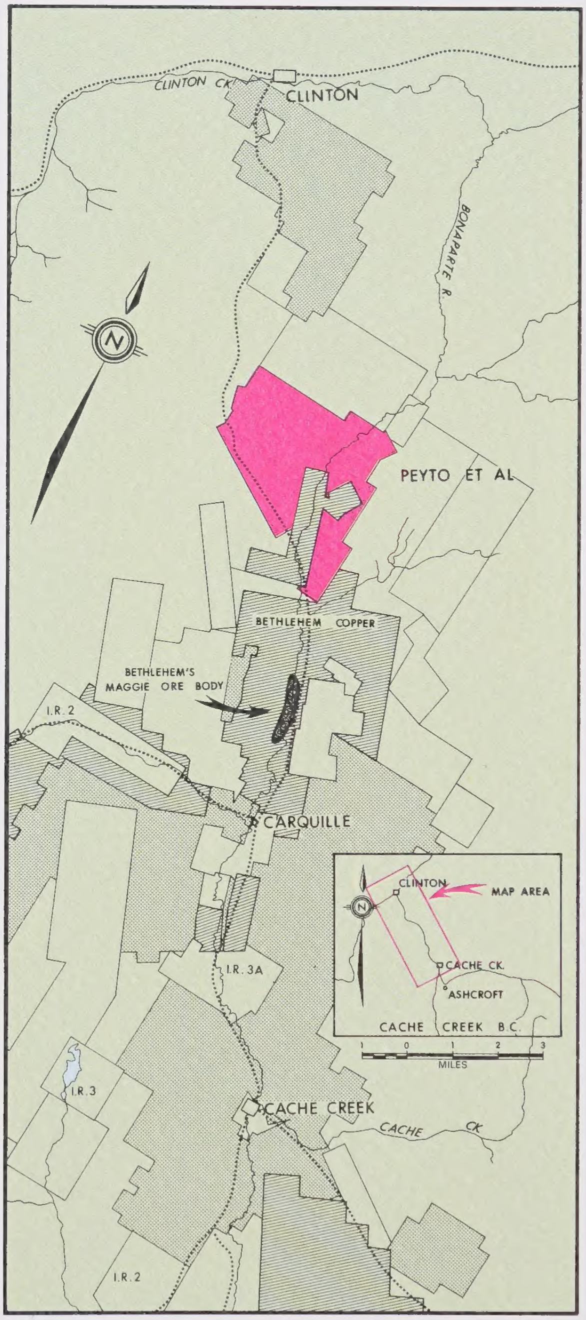
Reserves in the adjacent West Jumping Pound gas field exceed 1 Trillion cubic feet, making this prospect, if successful, of major significance. It is of interest to note that this prospect was initiated by our exploration staff in November 1969 and it is with satisfaction to finally see our efforts culminated in the drilling of this well.





MAGGIE, CACHE CREEK AREA

The company's 160 claims (50%) now in their second year of exploration, following intensive geochemical, magnetometer, and induced polarization surveys, show several excellent anomalies. The area, prospective for copper and molybdenum, is located in easily accessible terrain, a short distance north of the Trans Canada Highway. The confirmed copper-molybdenum discovery of Bethlehem Copper Corporation Ltd. with indicated reserves of 200 million tons of .5% copper is located three miles south of the company's claims. Drilling appears warranted and will likely be undertaken by Peyto and partners or by others.



TUNISIA - GULF OF HAMMAMET

The concession shown contains 1,269,785 acres with Peyto holding a 6⅔% working interest. A total of 1000 miles of offshore seismic has been completed. Offshore Tunisia is becoming a highly prospective area with substantial discoveries being recorded in the Gulf of Gabes and Sfax, offshore. A gas field exists at Djibel onshore, close to the prospect acreage.

The initial testwell is tentatively planned for mid 1973.

Peyto Oils Ltd. and Subsidiary Companies

Consolidated Balance Sheet

May 31, 1972 (with comparative figures for 1971)

Assets

	1972	1971
Current assets:		
Cash	$ 24,379	—
Deposit receipts, including accrued interest (Note 7)	416,140	402,187
Accounts receivable (Note 5)	92,055	44,148
Current portion of notes receivable	5,000	5,000
Prepaid expenses	451	1,627
Total current assets	538,025	452,962
Notes receivable from directors, net of current portion (Note 2)	20,000	25,000
Property, plant and equipment (Notes 3 and 5):		
Cost	2,756,844	2,519,666
Less accumulated depletion and depreciation	259,868	96,029
	2,496,976	2,423,637
Other assets:		
Investments, at cost less amounts written off (no quoted market value) (Note 4)	152,711	27,506
Refundable deposits	11,270	5,573
Incorporation costs	4,981	4,981
	168,962	38,060
	$3,223,963	2,939,659

Liabilities

	1972	1971
Current liabilities:		
Bank overdraft	$ —	2,083
Current portion of long-term debt (Note 5)	100,000	200,000
Accounts payable and accrued liabilities	54,195	63,979
Total current liabilities	154,195	266,062
Long-term debt (Note 5)		
Bank loan, net of current portion	629,000	626,000
Minority interest in subsidiary company	163,953	135,584
Shareholders' Equity:		
Capital stock (Note 6):		
Authorized:		
3,000,000 shares without nominal or par value		
Issued:		
1,953,293 shares (1971 - 1,753,293 shares)	2,376,025	1,976,025
Deficit	99,210	64,012
	2,276,815	1,912,013
Commitment and contingency (Notes 4 and 7)		
	$3,223,963	2,939,659

Approved on behalf of the Board:

WILLIAM WOLODARSKY, Director

R. T. VANDERHAM, Director

See accompanying notes.

Consolidated Statement of Earnings and Deficit

Year ended May 31, 1972
(with comparative figures for 1971)

	1972	1971
Revenue:		
Oil and gas	$477,318	161,660
Geological and consulting fees	60,066	96,540
Interest earned	26,847	47,254
	564,231	305,454
Expenses:		
Operating	193,763	78,445
Lease rentals on non-producing properties	10,743	2,783
General and administrative	102,978	86,495
Interest:		
Long-term	52,823	32,954
Other	—	11,862
	360,307	212,539
Cash flow from operations	203,924	92,915
Non-cash charges (credits):		
Depletion	97,695	43,828
Depreciation	66,143	43,752
Dry holes and abandonments	73,791	58,417
Write down of investments	1,999	12,499
Gain on sale of properties	(28,875)	—
	210,753	158,496
Loss before the following	6,829	65,581
Minority interest in profit (loss) of subsidiary	28,369	(33,038)
Net loss	35,198	32,543
Deficit at beginning of year	64,012	31,469
Deficit at end of year	$ 99,210	64,012
Loss per share	$ 0.02	0.02

See accompanying notes.

Consolidated Statement of Source and Application of Funds

Year ended May 31, 1972

(with comparative figures for 1971)

	1972	1971
Source of funds:		
Cash flow from operations	$203,924	92,915
Decrease in notes receivable	5,000	5,000
Increase in long-term debt, net of current portion	3,000	626,000
Sale of capital stock	400,000	494
Sale of properties	38,635	—
Total funds provided	650,559	724,409
Application of funds:		
Property, plant and equipment	320,728	1,258,861
Increase (decrease) in other assets:		
Investments	127,204	25,505
Other	5,697	(9,054)
Total funds applied	453,629	1,275,312
Increase (decrease) in working capital	196,930	(550,903)
Working capital at beginning of year	186,900	737,803
Working capital at end of year	$383,830	186,900

See accompanying notes.

Notes to the Consolidated Financial Statements

May 31, 1972

1. Principles of Consolidation:

   The consolidated financial statements include the accounts of Peyto Oils Ltd. and its wholly-owned subsidiary company, Peyto Explorations, Inc. and a 65% held subsidiary, Giant Reef Petroleums Limited.

   The excess of the purchase price of the shares of Giant Reef Petroleums Limited over the underlying net book value, at date of acquisition, has, on consolidation, been added to the cost of developed oil and gas properties and is being depleted on the unit of production method.

2. Notes receivable:

   The notes receivable from certain directors are non-interest bearing and are due in the amount of $5,000 per annum with the balance due on September 1, 1973.

3. Property, plant and equipment:

	1972 Cost	1972 Accumulated depletion and depreciation	1971 Cost	1971 Accumulated depletion and depreciation
Developed oil and gas properties and equipment thereon . . .	$1,669,591	185,328	1,532,916	67,120
Gas plant	912,615	74,540	867,286	28,909
Undeveloped properties . . .	174,638	—	119,464	—
	$2,756,844	259,868	2,519,666	96,029

The companies' policy is to capitalize all costs relative to the exploration for and the development of petroleum and natural gas whether productive or non-productive. Costs pertaining to producing properties are depleted on a unit of production method based on estimated reserves. Carrying costs on undeveloped properties are charged against earnings in the year incurred. The cost of non-producing properties, including development and exploration cost thereon, less any proceeds on disposal, are charged against earnings in the year of disposal, abandonment or surrender.

4. Investments:

Included in other investments are amounts representing the company's interest in two United Kingdom companies. These two companies are Enjay Holdings Ltd. of which the company owns 42.5% of the outstanding Common shares at a cost of $5,633; and Sea Search Limited in which the company has a 3.9% interest at a cost of $120,567. During August 1972 the company invested an additional $136,852 in Sea Search Limited in order to retain their 3.9% interest. The company is committed to invest a further amount of approximately $131,000 during August, 1973.

5. Long-term debt:

Although the bank loan is subject to call on demand, under the agreed terms of repayment approximately $100,000 will be repaid within the next twelve months. The loan is secured by an assignment of certain interests in developed properties and accounts receivable of a subsidiary company.

6. Capital Stock:

In connection with obtaining funds for a drilling program, the company granted a warrant to purchase 50,000 shares of its capital stock, exercisable as follows:

$2.25 per share if exercised prior to June 23, 1974.
$2.50 per share if exercised prior to June 23, 1975.
$2.75 per share if exercised prior to June 23, 1976.

During the year the company issued 200,000 shares for $400,000 cash. The company also granted an employee a stock option for 10,000 shares at $2.25 per share. Subsequent to May 31, 1972 this option was cancelled.

7. Contingent Liability:

The Company has issued and deposited with the Government of Canada and certain foreign governments, letters of credit to be held as security for the performance of work obligations in respect to exploratory rights. The aggregate of such letters of credit amounted to $74,482 at May 31, 1972. The company has assigned to a Canadian chartered bank $100,000 of its deposit receipts as security for these letters of credit.

8. Remuneration of Directors and Officers:

The aggregate direct remuneration paid to directors and senior officers during the year amounted to $39,000.

9. Income taxes:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. For 1972 the companies do not intend to claim excess capital cost allowance but will claim the other specified deductions in an amount sufficient to eliminate taxable income, and expenditures remain to be carried forward and applied against future taxable income are as follows:

Drilling, exploration and lease acquisition costs	$1,442,000
Undepreciated capital cost	958,000

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes in the current and prior years would have been insignificant.

10. Loss per Share:

Loss per share is based on the weighted monthly average number of shares outstanding during the year.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Peyto Oils Ltd. and subsidiaries as of May 31, 1972 and the consolidated statements of earnings and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at May 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
August 14, 1972

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Peyto Oils Ltd. & Subsidiary Companies

CONSOLIDATED BALANCE SHEET

As at November 30, 1972

(with comparative figures for 1971)
(Unaudited)

ASSETS

	1972	1971
Current:		
Cash including deposit receipts	$ 289,048	$ 303,460
Accounts receivable	39,246	937
Current portion of notes receivable	5,000	5,000
Prepaid expenses	219	1,108
Total current assets	333,513	310,505
Notes receivable from directors, net of current portion	15,000	20,000
Property, plant and equipment less accumulated depletion & depreciation	2,618,961	2,469,755
Other assets:		
Other investments at cost (no quoted market value)	288,065	27,508
Refundable deposits	11,270	15,898
Incorporation costs	4,981	4,961
	304,316	48,367
	$3,271,790	$2,848,627

LIABILITIES

	1972	1971
Current:		
Accounts payable	$ 126,234	$ 2,765
Bank loan	100,000	200,000
Total current liabilities	226,234	202,765
Bank loan, net of current	607,000	569,000
Minority interest in subsidiary company	163,953	135,584
Shareholders equity		
Capital stock		
Shares without nominal or par value		
Authorized 3,000,000		
Shares issued 1,953,293	2,376,025	1,976,025
Retained earnings (deficit)	(101,422)	(34,747)
	2,274,603	1,941,278
	$3,271,790	$2,848,627

AR13

PEYTO OILS LTD.
335, 805 - 5th St. S.W.
Calgary, Alberta T2P 1W3

Toronto Globe & Mail,
140 King Street West,
TORONTO, Ontario.

Peyto Oils Limited

AND SUBSIDIARY COMPANIES

INTERIM REPORT

For Six Months Ended November 30, 1972

Dear Shareholder:

We are pleased to report significant progress in the affairs of your company. Of major importance is the acquisition of all the outstanding shares of Polaris Oil Limited and its subsidiaries. Peyto issued 388,090 treasury shares for this acquisition. In addition to ±$470,000 in working capital, Polaris holds a 10% interest in U.K. North Sea block 3/7, varying interests in 233,952 gross acres and 126,105 net acres in Western Canada, Montana and North Dakota, and several geologic prospects in various stages of development.

Mr. John Downing, former president of Polaris Oil Limited, has agreed to serve as a director of your company and Mr. Roger Ball, formerly with Polaris, has joined Peyto in an administrative capacity.

The potential of the U.K. North Sea Block 3/7 will in part be evaluated by a proposed well in the offsetting block 3/3. The well is scheduled to commence in the summer of 1973.

Another development of great satisfaction to your management is the indication of a natural gas discovery on the company's prospect at Seebe-Ghost (please refer to page 6 of our last annual report). Due to the availability of undisposed Crown lands in the vicinity to the well, all well information is being held confidential. Further evaluation of the well and additional drilling is needed to determine the extent and magnitude of the accumulation.

Since our last report to you on September 12, 1972, we operated and participated for 25% in an indicated dual zone natural gas discovery in the Drumheller area of Alberta. We now hold varying interest in 10,080 acres in this area. Further testing and evaluation of this discovery is presently being carried out. Additional drilling will depend on the success of the evaluation results.

Two additional oil wells were completed at Hume, Saskatchewan. Peyto and Peyto Oil & Gas Program 1972 now have five oil wells on production in this pool.

An indicated oil success was drilled on our 26% Lucky Hills acreage in Saskatchewan.

In Guyana the company (12½%) participated with others in the acquisition of an additional 780,000 acre concession, bringing the total area in which your company has an interest to 1.3 million acres.

In Gambia, West Africa we acquired a 5% stake in a 1,574,000 acre, offshore concession which embraces the entire offshore rights of that Republic.

Negotiations are underway to acquire a new Drilling Fund for 1973. Additional limited equity financing is also anticipated.

January 24, 1973.

W. Wolodarsky,

President

Peyto Oils Ltd. & Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the six months ended November 30, 1972
(with comparative figures for November 30, 1971)
(Unaudited)

	1972	1971
REVENUE:		
Oil & gas sale — net of royalties	$ 186,401	$ 175,888
Royalties	971	802
Contract services	82,485	22,893
Interest earned	6,888	11,349
	276,745	210,932
EXPENSES:		
Lease operating	95,180	40,390
General & administrative	74,676	72,811
Lease rentals on non-producing properties	858	6,279
	170,714	119,480
Cash flow from operations	106,031	91,452
Non Cash Charges:		
Depletion & depreciation	81,919	43,800
Dry holes and abandonments	26,324	18,387
	108,243	62,187
Net Earnings (net loss) profit	(2,212)	29,265
Retained earnings (deficit) beginning of period	(99,210)	(64,012)
Retained earnings (deficit) end of period	$(101,422)	$ (34,747)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(with comparative figures for 1971)
(Unaudited)

	1972	1971
Source of funds:		
Decrease in notes receivable	$ 5,000	$ 5,000
Cash flow from operations	106,031	91,452
Total funds provided	111,031	96,452
Application of funds:		
Investments	135,354	
Property, plant and equipment	230,228	118,305
Repayment of bank loan	22,000	57,000
Increase in reservation deposits		10,307
Total funds applied	387,582	185,612
Increase (decrease) in working capital	$(276,551)	$ (89,160)